

ALTA MUNICIPAL UTILITIES
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2007

ALTA MUNICIPAL UTILITIES

ALTA, IOWA

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ALTA MUNICIPAL UTILITIES

ALTA, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
C. Alan Wadsley	Trustee	June 2008
Kevin Walsh	Trustee	June 2009
Jeff James	Trustee	June 2010
Ron Gullickson	Trustee	June 2011
Dennis Weber	Trustee	June 2012

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Alta Municipal Utilities
Alta, Iowa

We have audited the accompanying balance sheet of Alta Municipal Utilities, a component unit of City of Alta, as of and for the year ended December 31, 2007, and the related statement of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alta Municipal Utilities as of December 31, 2007, and the respective changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

The Utility has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2008, on our consideration of Alta Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

July 8, 2008

Hunzelman, Putzier & Co.

ALTA MUNICIPAL UTILITIES
BALANCE SHEET
DECEMBER 31, 2007

Exhibit A

ASSETS

2007

CAPITAL ASSETS

Plant in service	\$8,721,663
Accumulated depreciation	<u>4,434,357</u>
Net plant in service	4,287,306
Land	70,913
Construction in progress	<u>5,800</u>
Total capital assets	<u>4,364,019</u>

CURRENT ASSETS

Unrestricted:

Cash and cash equivalents	327,355
Temporary cash investments	535,000
Accounts receivable	205,323
Joint use contract receivable	570,000
Inventories	82,762
Accrued interest receivable	1,821
Prepaid expenses	5,270

Restricted:

Bond sinking fund	<u>24,648</u>
Total current assets	<u>1,752,179</u>

OTHER ASSETS

Unrestricted:

Non-utility property -- net of accumulated depreciation	14,642
Land held for investment	14,134
Plant acquisition costs -- net of amortization of \$50,765	11,535
Investments -- bond proceeds	1,430,484
Deferred patronage refund receivable	18,929
Bond issuance costs -- net of amortization of \$14,233	43,261

Restricted:

Bond improvement fund	198,000
Bond reserve fund	321,963
NIMECA -- Neal 4 operations account	-
Common transmission system -- capital improvement fund	<u>98,229</u>
Total other assets	<u>2,151,177</u>

DEFERRED DEBITS

17,453

Total assets	<u>\$8,284,828</u>
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(Continued)

ALTA MUNICIPAL UTILITIES
BALANCE SHEET
DECEMBER 31, 2007

Exhibit A
(Continued)

LIABILITIES AND NET ASSETS

2007

CURRENT AND ACCRUED LIABILITIES

Current maturities of revenue bonds	\$1,580,000
Accounts payable	64,959
Customer deposits	34,760
Other current and accrued liabilities	<u>61,900</u>
Total current and accrued liabilities	<u>1,741,619</u>

LONG-TERM DEBT, LESS CURRENT MATURITIES

Electric revenue bonds	2,745,000
Less: unamortized bond discount	<u>46,754</u>
	<u>2,698,246</u>

NET ASSETS

Invested in capital assets, net of related debt	1,504,019
Restricted	642,840
Unrestricted	<u>1,698,104</u>
Total net assets	<u>3,844,963</u>

Total liabilities and net assets	<u>\$8,284,828</u>
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The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

Exhibit B

	<u>Light Plant</u>	<u>Water Plant</u>	<u>Total</u>
<u>OPERATING REVENUE</u>			
Sales to consumers	\$1,160,043	\$ 308,316	\$1,468,359
Penalties and service fees	5,789	1,251	7,040
Tax revenues	-	6,588	6,588
Joint use revenue	110,000	-	110,000
Fiber lease	7,700	-	7,700
Miscellaneous	5,130	-	5,130
Total operating revenues	<u>1,288,662</u>	<u>316,155</u>	<u>1,604,817</u>
<u>OPERATING EXPENSES</u>			
Purchased power	<u>407,559</u>	<u>-</u>	<u>407,559</u>
Local plant operations:			
Depreciation and amortization	48,017	72,479	120,496
Supplies and chemicals	17,226	24,413	41,639
Wages and benefits	7,630	15,214	22,844
Utilities	7,991	42,593	50,584
Fuel and oil	6,006	1,102	7,108
Other	4,119	1,342	5,461
Total local plant operations	<u>498,548</u>	<u>157,143</u>	<u>655,691</u>
Generating expense – Walter Scott 4:			
Fuel	52,342	-	52,342
Generation – operation/maintenance	38,650	-	38,650
Transmission – operation/maintenance	100	-	100
Depreciation	21,670	-	21,670
Facility charges	239	-	239
Other	3,732	-	3,732
Total generating plant – Walter Scott 4	<u>116,733</u>	<u>-</u>	<u>116,733</u>
Distribution expenses – electric:			
Wages and benefits	34,709	15,680	50,389
Depreciation	18,213	4,805	23,018
Other	528	200	728
Total electric distribution expenses	<u>53,450</u>	<u>20,685</u>	<u>74,135</u>
Distribution expenses – communications:			
Wages and benefits	1,501	-	1,501
Supplies	59	-	59
Maintenance and repairs	21,761	-	21,761
Property taxes	13,170	-	13,170
Depreciation	251,812	-	251,812
Total communications distribution expense	<u>288,303</u>	<u>-</u>	<u>288,303</u>

(Continued)

ALTA MUNICIPAL UTILITIES
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

Exhibit B
(Continued)

	<u>Light Plant</u>	<u>Water Plant</u>	<u>Total</u>
Maintenance expenses:			
Wages and benefits	\$ 26,802	\$ 16,973	\$ 43,775
Testing and supplies	22,157	12,565	34,722
Depreciation	3,463	5,208	8,671
Other	4,133	15,481	19,614
Total maintenance expenses	<u>56,555</u>	<u>50,227</u>	<u>106,782</u>
 <u>OPERATING EXPENSES</u>			
General and administrative expenses:			
Salaries and wages	61,184	42,571	103,755
Office supplies and postage	4,168	4,009	8,177
Depreciation	3,164	1,802	4,966
Insurance – employees	18,994	12,248	31,242
Insurance – general	8,081	6,619	14,700
Professional fees	7,163	5,290	12,453
Dues and subscriptions	2,598	544	3,142
Advertising	1,346	1,346	2,692
Meeting and travel	604	369	973
Technical support	1,303	1,224	2,527
Telephone	1,707	1,237	2,944
Energy conservation and efficiency	1,313	-	1,313
Bad debts (recoveries)	(1,730)	-	(1,730)
Other expenses	4,205	6,290	10,495
Total general and administrative expenses	<u>114,100</u>	<u>83,549</u>	<u>197,649</u>
 Total operating expenses	<u>1,127,689</u>	<u>311,604</u>	<u>1,439,293</u>
 Operating income	<u>160,973</u>	<u>4,551</u>	<u>165,524</u>
 <u>NON-OPERATING REVENUE AND EXPENSE</u>			
Interest earned on investments	136,302	-	136,302
Interest expense	(189,377)	-	(189,377)
Amortization of bond issue costs	(3,299)	-	(3,299)
Deferred patronage allocations	2,772	-	2,772
 Non-operating loss	<u>(53,602)</u>	<u>-</u>	<u>(53,602)</u>
 Change in net assets	107,371	4,551	111,922
 Net assets, beginning of year	2,883,630	898,087	3,781,717
 Less: Residual equity transfer to City	<u>(48,676)</u>	<u>-</u>	<u>(48,676)</u>
 Net assets, end of year	<u>\$2,942,325</u>	<u>\$ 902,638</u>	<u>\$3,844,963</u>

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

Exhibit C

	<u>2007</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Cash received from customers	\$1,518,693
Cash paid to suppliers	(804,209)
Cash paid to employees	<u>(221,550)</u>
Net cash provided by operating activities	<u>492,934</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>	
Payments to city	<u>(48,676)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>	
Acquisition and construction of utility plant	(245,814)
Principal paid on bonds	(145,000)
Interest paid on bonds	<u>(151,791)</u>
Net cash used in capital and related financing activities	<u>(542,605)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Investments matured or sold	811,708
Purchase of investments	(475,000)
Interest received	74,863
Purchase of restricted cash	<u>(41,649)</u>
Net cash provided by investing activities	<u>369,922</u>
<u>NET INCREASE IN CASH AND CASH EQUIVALENTS</u>	271,575
Cash and cash equivalents at beginning of year	<u>55,780</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 327,355</u>

(Continued)

ALTA MUNICIPAL UTILITIES
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

Exhibit C
(Continued)

	<u>2007</u>
<u>RECONCILIATION OF OPERATING INCOME TO CASH</u>	
<u>PROVIDED BY OPERATING ACTIVITIES:</u>	
Operating income	<u>\$ 165,524</u>
Adjustments to reconcile operating income to cash provided by operations:	
Depreciation and amortization	430,633
Changes in assets and liabilities:	
Increase in accounts receivable	(89,549)
Increase in inventory	(8,417)
Decrease in prepaid expenses	500
Decrease in deferred debits	3,740
Decrease in accounts payable	(16,195)
Increase in other liabilities	<u>6,698</u>
Total adjustments	<u>327,410</u>
Net cash provided by operating activities	<u>\$ 492,934</u>

SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITY

During the year ended December 31, 2007, the Utility paid interest of \$61,225 on the 2005 revenue refunding notes with interest earnings in the bond escrow account.

The accompanying notes are an integral part of this statement.

ALTA MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Alta Municipal Utilities is a component unit of City of Alta. The Mayor appoints the trustees of the Utility subject to approval by the City Council. The City Council also approves the Utility's operating budget.

Alta Municipal Utilities distributes electric energy and water to consumers in Alta, Iowa. Sales of water and electricity are billed on the twenty-fifth of each month for usage through the fifteenth of the month. As has been done in prior years, an unbilled receivable in the amount of \$64,508 has been recorded (\$65,561 at December 31, 2006) for the period December 15 through December 31. Alta Municipal Utilities is billed by their suppliers on a calendar month basis.

The Utility's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standard Board.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reporting Entity

For financial reporting purposes, Alta Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utility has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the Utility. Alta Municipal Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of Alta Municipal Utilities are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

ALTA MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Measurement Focus and Basis of Accounting - (Continued)

The Utility applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utility distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utility's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash, Investments, and Cash Equivalents - Investments are carried at cost which approximates market value. For the purpose of reporting cash flows, cash and cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Inventories - Inventories are stated at the lower of cost or replacement value. Cost is determined on a weighted average method.

Utility Plant - Utility plant is stated at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense.

Provisions for depreciation of generating, transmission, and distribution plant are computed on a straight-line basis employing a group method. The original costs of assets retired (not constituting the sale of an operating unit or system) together with the costs of removal less salvage are charged to the related accumulated depreciation accounts. In accounting for the sale of operating units or systems, gains or losses are reflected in net revenue.

Provisions for depreciation of general plant are computed on a straight-line basis employing the unit depreciation method. The original cost of property retired is removed from the general plant accounts and the related accumulated depreciation accounts are charged for the depreciation taken to date. Gain or loss is recognized to the extent that the salvage value of the assets retired exceeds or falls short of the remaining book value of the assets retired.

Amortization - The cost of acquiring a portion of the common transmission system is being amortized over the remaining useful life of the assets.

Legal fees and other expenses associated with the issuance of the electric revenue notes are being amortized on the straight-line method over the term of the bonds. Amortization charged to expense in 2007 and 2006 was \$3,299.

Interest Expense - The Utility follows the policy of capitalizing interest as a component of the cost of utility plant. In 2007, total interest incurred was \$217,961, of which \$189,377 was charged to expense.

Compensated Absences - Utility employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, death, or retirement. The Utility's liability for accumulated vacation has been computed based on rates of pay in effect at December 31, 2007.

ALTA MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Budgets and Budgetary Accounting - The Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing in accordance with the Code of Iowa. The budget may be amended during the year utilizing similar statutorily prescribed procedures.

The following is a comparison of revenues, expenses, and changes in net assets - actual to budget:

	<u>Actual</u>	<u>Budgeted Amount</u>	<u>Budget to Actual Variance</u>
Revenues:			
Use of money and property	\$ 136,302	\$ 55,000	\$ 81,302
Charges for services	1,578,359	1,577,600	759
Miscellaneous	<u>29,230</u>	<u>17,006</u>	<u>12,224</u>
	1,743,891	1,649,606	94,285
Expenses	<u>1,631,969</u>	<u>2,671,282</u>	<u>1,039,313</u>
Net	111,922	(1,021,676)	1,133,598
Net assets, beginning of year	3,781,717	2,885,609	896,108
Residual equity transfer to City	<u>(48,676)</u>	<u>(42,000)</u>	<u>(6,676)</u>
Net assets, end of year	<u>\$3,844,963</u>	<u>\$1,821,933</u>	<u>\$2,023,030</u>

2. DEPOSITS

The Utility's deposits in banks at December 31, 2007, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utility's investments as of December 31, 2007 are as follows:

US Treasury securities (revenue refunding bond proceeds held in escrow)	<u>\$1,430,484</u>
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Interest rate risk - The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

ALTA MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

3. CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2007 was as follows:

	<u>Beginning Balance</u>	<u>Additions and Transfers In</u>	<u>Deletions and Transfers Out</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 70,913	\$ -	\$ -	\$ 70,913
Construction in progress	<u>1,180,645</u>	<u>558,733</u>	<u>(1,733,578)</u>	<u>5,800</u>
Total capital assets not being depreciated	<u>1,251,558</u>	<u>558,733</u>	<u>(1,733,578)</u>	<u>76,713</u>
Capital assets being depreciated:				
Infrastructure	3,970,085	1,804,153	(2,887)	5,771,351
Buildings and improvements	836,522	-	-	836,522
Equipment	<u>2,018,499</u>	<u>95,291</u>	<u>-</u>	<u>2,113,790</u>
Total capital assets being depreciated	<u>6,825,106</u>	<u>1,899,444</u>	<u>(2,887)</u>	<u>8,721,663</u>
Less accumulated depreciation	<u>4,011,962</u>	<u>427,959</u>	<u>(5,564)</u>	<u>4,434,357</u>
Total capital assets being depreciated - net	<u>2,813,144</u>	<u>1,471,485</u>	<u>2,677</u>	<u>4,287,306</u>
Capital assets - net	<u>\$ 4,064,702</u>	<u>\$ 2,030,218</u>	<u>\$ (1,730,901)</u>	<u>\$ 4,364,019</u>

4. ELECTRIC REVENUE BONDS

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ending December 31,</u>	<u>2000 Revenue Notes</u>		<u>2003 Revenue Notes</u>		<u>2005 Revenue Refunding Notes</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$1,510,000	\$ 90,425	\$ 70,000	\$ 55,347	\$ -	\$ 61,225	\$ 1,580,000	\$ 206,997
2009	-	-	75,000	53,318	-	61,225	75,000	114,543
2010	-	-	75,000	50,955	110,000	57,100	185,000	108,055
2011	-	-	80,000	48,442	115,000	52,730	195,000	101,172
2012	-	-	85,000	45,603	120,000	48,050	205,000	93,653
2013-2017	-	-	480,000	175,442	655,000	161,378	1,135,000	336,820
2018-2021	-	-	<u>485,000</u>	<u>59,050</u>	<u>465,000</u>	<u>21,070</u>	<u>950,000</u>	<u>80,120</u>
	1,510,000	90,425	1,350,000	488,157	1,465,000	462,778	4,325,000	1,041,360
Less: Current maturities	<u>(1,510,000)</u>	<u>-</u>	<u>(70,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,580,000)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 90,425</u>	<u>\$1,280,000</u>	<u>\$488,157</u>	<u>\$1,465,000</u>	<u>\$462,778</u>	<u>\$2,745,000</u>	<u>\$1,041,360</u>

The resolutions providing for the issuance of revenue bonds include the following provisions:

- A. The bonds will only be redeemed from the future earnings of the enterprise activity and the bondholders hold a lien on the future earnings of the funds.
- B. Sufficient monthly transfers shall be made to electric revenue sinking account for the purpose of making the bond principal and interest payments when due.

ALTA MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

4. ELECTRIC REVENUE BONDS - (Continued)

- C. The Utility is to establish a separate Bond Reserve Account into which there shall be set apart and paid at the time of delivery of the obligations the sum of \$250,000 for the 2000 bonds. Monthly deposits of 25% of sinking fund deposits, to a maximum of \$146,650, shall be set apart for the 2003 bond issue.
- D. Additional monthly transfers of \$2,000 to the Bond Improvement Fund shall be made until the sum of \$100,000 has been accumulated for each bond issue. These accounts are restricted for the purpose of paying for necessary repairs, improvements, and extension to the system

In December 2005 the Utility issued \$1,465,000 of revenue refunding notes to advance refund the 2000 revenue notes under a crossover refunding arrangement. The proceeds of the 2005 refunding notes were placed in an irrevocable trust fund to provide for the future debt service of the 2000 notes. Interest on the 2005 refunding notes will be paid from the escrow account through December 1, 2008, on which date the 2000 notes will be called for redemption and also paid from the escrow account. As a result of the advance refunding, the Utility achieved a debt service savings of \$192,691. The escrow account assets and the liability for the notes are included in the Utility's financial statements until defeasance occurs.

5. RESTRICTED NET ASSETS

Net assets have been restricted in amounts necessary to fund the following specific reserves:

	<u>2007</u>
Restricted:	
CTS Improvement account	\$ 98,229
Bond retirement sinking fund	24,648
Bond reserve fund	321,963
Bond improvement fund	<u>198,000</u>
	<u>\$ 642,840</u>

6. COMMON TRANSMISSION SYSTEM – CAPITAL IMPROVEMENT FUND

This account is currently used to record funds deposited with NIMECA to be used for future construction and/or maintenance of the common transmission.

7. PENSION AND RETIREMENT BENEFITS

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% (3.70% through June 30, 2007) of their annual covered salary and the Utility is required to contribute 6.05% (5.75% through June 30, 2007) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ending December 31, 2007, 2006, and 2005, were \$11,591, \$11,008, and \$10,272, respectively, equal to the required contribution for each year.

ALTA MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

8. RISK MANAGEMENT

Alta Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. SIGNIFICANT AREA CONCENTRATION OF CREDIT RISK

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Alta, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

10. RELATED PARTY TRANSACTION

Pursuant to Iowa Code Chapter 28E.18 concerning the joint use of facilities through sharing agreements, the Alta Municipal Utilities and the Alta Municipal Broadband Communications Utility have entered into an agreement whereby the Communications Utility shall pay the Electric Utility the sum of \$110,000 (accrued monthly) on or before the first day of May each year for the use of a portion of the Communications distribution system for the previous calendar year. The term of this agreement is forty years and the payments are due May 1 of each year. In February, 2008, the amount was adjusted to \$80,000 to be effective January 1, 2008.

11. ACCOUNTING RESTATEMENTS

Beginning net assets has been restated to reflect a change in prior year assets due to the application of Financial Accounting Standards Board Statement Number 62 *Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings*. This restatement is summarized below:

	<u>Amount</u>
Net assets December 31, 2006 as previously reported	\$3,626,397
Capitalization of interest 2003 to 2006	<u>155,320</u>
Restated net assets December 31, 2006	<u>\$3,781,717</u>

12. SUBSEQUENT EVENT

In February, 2008, the Trustees approved a residual equity transfer of \$250,000 to the City of Alta.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

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RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
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Board of Trustees
Alta Municipal Utilities
Alta, Iowa

The primary purpose of our examination was to formulate an opinion on the financial statements taken as a whole. The additional information presented in the following pages was prepared on the basis of audit procedures applied in our examination of the financial statements. This information, while not considered necessary for fair presentation of the financial statements is, in our opinion, fairly stated in all material respects when considered in relation to the financial statements taken as a whole.

July 8, 2008

Hunzelman, Putzier & Co.

ALTA MUNICIPAL UTILITIES
SCHEDULE OF MUNICIPAL PLANT
DECEMBER 31, 2007

Schedule 1

	Utility Plant			Accumulated Depreciation					
	Balance January 1, 2007	Additions	Retire- ments	Balance December 31, 2007	Balance January 1, 2007	Expense	Retire- ments	Balance December 31, 2007	Depreciation Rates In Percent
<u>ELECTRIC PLANT</u>									
Land	\$ 70,913	\$ -	\$ -	\$ 70,913	\$ -	\$ -	\$ -	\$ -	-
Buildings	194,647	-	-	194,647	137,251	6,138	-	143,389	2.50-6.67
Transmission plant	686,648	47,014	2,887	730,775	318,098	18,434	5,564	330,968	2.75
Walter Scott #4 generating plant	-	1,733,578	-	1,733,578	-	21,670	-	21,670	2.50
Equipment	617,824	7,772	-	625,596	497,979	23,092	-	521,071	3.33-10.00
Distribution lines	648,257	7,519	-	655,776	412,569	18,213	-	430,782	3.00-6.67
Communication distribution system	2,379,434	-	-	2,379,434	1,379,980	251,812	-	1,631,792	2.50-14.29
Other physical property	<u>211,948</u>	<u>56,086</u>	<u>-</u>	<u>268,034</u>	<u>203,151</u>	<u>4,306</u>	<u>-</u>	<u>207,457</u>	10.00-20.00
Electric plant in service	<u>4,809,671</u>	<u>1,851,969</u>	<u>2,887</u>	<u>6,658,753</u>	<u>2,949,028</u>	<u>343,665</u>	<u>5,564</u>	<u>3,287,129</u>	
<u>WATER PLANT</u>									
Buildings	641,875	-	-	641,875	314,908	22,792	-	337,700	3.00-10.00
Equipment	1,071,711	14,151	-	1,085,862	483,194	49,687	-	532,881	2.00-10.00
Distribution lines	255,746	16,042	-	271,788	180,788	4,805	-	185,593	5.00-10.00
Other physical property	<u>117,016</u>	<u>17,282</u>	<u>-</u>	<u>134,298</u>	<u>84,044</u>	<u>7,010</u>	<u>-</u>	<u>91,054</u>	10.00
Water plant in service	<u>2,086,348</u>	<u>47,475</u>	<u>-</u>	<u>2,133,823</u>	<u>1,062,934</u>	<u>84,294</u>	<u>-</u>	<u>1,147,228</u>	
Total plant in service	6,896,019	1,899,444	2,887	8,792,576	4,011,962	427,959	5,564	4,434,357	
Construction in progress	<u>1,180,645</u>	<u>(1,174,845)</u>	<u>-</u>	<u>5,800</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Total Utility Plant	<u>\$8,076,664</u>	<u>\$ 724,599</u>	<u>\$ 2,887</u>	<u>\$8,798,376</u>	<u>\$4,011,962</u>	<u>\$ 427,959</u>	<u>\$ 5,564</u>	<u>\$4,434,357</u>	

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Alta Municipal Utilities
Alta, Iowa

As of and for the year ended December 31, 2007, we have audited the financial statements of Alta Municipal Utilities and have issued our report thereon dated July 8, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the Utility's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies in internal control described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A), (B), and (C) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Alta, Iowa, and other parties to whom Alta Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

July 8, 2008



ALTA MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2007

Findings Related to the Financial Statements:

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Utility should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The Utilities will continue to cross-train office employees in an attempt to alleviate the problem. This problem may never be one hundred percent cured due to the limited amount of employees to perform the duties.

Conclusion - Response accepted.

- (B) Electronic Data Processing Systems - During our review of internal control, the existing control regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the Utility's computer based systems were noted:

The Utility does not have written policies for:

- password privacy and confidentiality,
- requiring password changes because software does not require the user to change logins/passwords periodically,
- ensuring that only software licensed to the Utility is installed on computers,
- requiring user profiles to help limit access to programs to those who have a legitimate need,

Also, the Utility does not have a written disaster recovery plan.

Recommendation - The Utility should develop written policies addressing the above items in order to improve the Utility's control over computer based systems and a written disaster recovery plan should be developed.

ALTA MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2007

Findings Related to the Financial Statements: (Continued)

SIGNIFICANT DEFICIENCIES: (Continued)

(B) Electronic Data Processing Systems - (Continued)

Response - The Utilities will develop written policies as time allows.

Conclusion - Response accepted.

(C) Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for Utility board members to make management decisions, reporting financial data reliably in accordance with U.S. generally accepted accounting principles (GAAP) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable GAAP financial statements.

Response - Management was hired because of their expertise in utility operations inside and outside of the office, and their ability to work with specialized professional people. The utility has no plans on hiring additional people or replacing the existing staff. Therefore, the utility will place their trust in the ability of the auditing firm to prepare year-end financial statements.

Conclusion - Response accepted.

Other Findings Related to Statutory Reporting:

- (1) Budget - Utility expenses during the year ended December 31, 2007, did not exceed the amounts budgeted.
- (2) Questionable Expenditures - We noted no expenditures which may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- (3) Travel Expense - No expenditures of Utility money for travel expenses of spouses of Utility officials or employees were noted.

ALTA MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2007

Other Findings Related to Statutory Reporting: - (Continued)

- (4) Business Transactions - We noted the following business transactions between the Utility and Utility officials:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ron Gullickson, Trustee Owner of Gully's Lawn Service	Parts and supplies	\$ 749

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with Trustee Gullickson do not appear to represent a conflict of interest since the total was less than \$2,500 during the year.

- (5) Bond Coverage - Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (6) Trustee Minutes - No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- (7) Revenue Bonds - The Utility has established the sinking and reserve accounts required by the electric revenue bond resolution.
- (8) Deposits and Investments - We noted no instances of non-compliance with the deposit and the investment provisions of Chapter 12B and 12C of the Code of Iowa.